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MARKET ADMINISTRATOR

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Federal Orders As They Affect Current Problems In The Dairy Industry

Excerpts from a talk by H. L. Forest, Director, Dairy Division at annual convention of the Washington State Dairy Foundation, Vancouver, B. C., September 29-30, 1960.

My topic today is "Federal Orders As They Affect Current Problems in The Dairy Industry". I believe, however, that history affords a useful approach to the current problems facing the order program. Therefore, I should like to stretch the topic to include a brief summary of the rapid growth and considerable present scope of the Federal order program. Then an exploration of the reasons for this growth will disclose the current problems on which the growth is based.

The popularity of the Federal order program among producer groups constantly amazes those of us who are closest to its administration. As you can well imagine, we hear more frequently from people who would like to change the orders than from those who are contented with the orders now in effect. For example, it is a foregone conclusion that individual producers and their cooperative associations would always like to have higher prices than those which they are getting at any given time.

Fortunately for our peace of mind, there are some occasions when producers and others speak well of the program. Requests for new orders fall into this category. The producers who are seeking a new order commonly have troublesome marketing problems which they feel confident can be solved, or at least helped, by a Federal order. Another instance of support was furnished by hearings held in May, 1960; before a subcommittee of the House of Representatives Committee on Agriculture. The subcommittee held two days of open hearings for the particular purpose of airing complaints about the operation of the orders in certain Iowa markets and in the Eastern Shore of the Upper Chesapeake Bay marketing area. On this occasion, representatives of cooperative associations from all parts of the United States and a large number of dairy farmers from the Upper Chesapeake Bay area made it clear to the subcommittee that there was very widespread support for the Federal order program.

The principal feature of an order is to establish the minimum prices which dealers must pay for milk delivered by producers. On the other hand, the orders do not set the prices at which milk may be transferred from one dealer to another nor do they set the prices which dealers charge for bottled milk delivered to homes or stores. The prices paid for producer milk depend upon the use the dealer makes of such milk. A higher price is charged for Class I

milk, that used for bottling purposes, and a lower price for Class II milk which is in excess of bottling requirements and must be converted into butter, cheese, ice cream, evaporated milk, or other dairy products. This classified price plan is enforced on all dealers involved in each marketing area.

Let us now turn our attention to some of the reasons for the growth of the Federal orders from 29 at the beginning of 1947 to 80 orders at present and from 15 billion to 43 billion pounds of milk in the same period of time.

The producers are the parties who are most actively interested in Federal orders. All the orders currently in effect were voted in by the necessary two-thirds majority of producers in the case of market-wide pools and three-fourths majority in the case of those orders for individual handler pools. The dealers do not ordinarily sign the voluntary marketing agreements. The producers, usually through their cooperative associations, are the parties who file the original request for new orders. Moreover, since their votes are decisive in ratifying an order, the Department does not hold a public hearing on a proposed new order unless its preliminary investigations indicate that an order would help meet the problems involved and that at least a substantial portion of the producers who would be involved support the proposed regulation.

The most common basic reason which prompts producers to request a new order is the development of marketing problems in the local area which producers are unable to solve by their own efforts. In some cases, the cooperative association may be newly organized and unable to develop enough bargaining power to establish or operate a reasonably effective classified price plan. In fact, such an association may be unable to obtain any effective recognition from some or any of the dealers in the market. More commonly, orders are requested by well-established cooperatives which have encountered difficulty in the operation of their own classified price plans.

Technological improvements in both the production and distribution of milk have also contributed in a major way to the rapid expansion of the order program. One of these technological developments which has greatly increased the mobility of milk supplies is the farm bulk tank and the hauling of milk from farms in bulk tank trucks. A similar development is the very wide area of distribution which can now be made from a single processing plant.

(continued on the back page)



Columbus

MARKET FACTS FOR EASY REFERENCE

PRICE SUMMARY

Producers' Uniform Price (3.5%)	\$4.84	\$4.77	\$5.11
Producers' Uniform Price (4%)	5.22	5.155	5.51
Class I (3.5%)	4.502	4.556	4.697
Class II (3.5%)	4.102	4.156	4.297
Class III (3.5%)	3.913	3.851	3.865
Class IV (3.5%)	3.100	3.097	3.116
Producer Butterfat Differential for each 1/10%	7.6¢	7.7¢	8.0¢

UTILIZATION SUMMARY

Percent of Producer Milk in Class I	86.1	85.7	92.0
" " " B.F. " " I	83.3	85.3	87.9
" " " Milk " " II	7.9	8.6	5.9
" " " B.F. " " II	2.3	2.6	2.3
" " " Milk " " III	1.6	2.1	1.0
" " " B.F. " " III	2.7	3.5	3.3
" " " Milk " " IV	4.4	3.6	1.1
" " " B.F. " " IV	11.7	8.6	6.5

PRODUCTION SUMMARY

Total Pounds of Producer Milk Delivered	27,938,777	26,321,725	26,207,693
Average Daily Class I Producer Milk	776,238	752,060	777,492
Total Number of Producers	1,588	1,611	1,727
Average Daily Production per Producer	568	545	490
Average Butterfat Test	3.80	3.63	3.86
Total Value of Producer Milk at Test	\$1,287,779.60	\$1,195,216.07	\$1,289,414.79
Income per Producer (7 Day Average)	\$183.12	\$173.11	\$168.59

GROSS CLASS USE (Pounds)

Class I Skim	23,178,852	21,746,926	23,447,213
" I B.F.	884,525	814,882	893,253
" I Milk	24,063,377	22,561,808	24,340,466
" II Skim	2,238,913	2,326,833	2,182,097
" II B.F.	24,261	24,712	23,983
" II Milk	2,263,174	2,351,545	2,206,080

AVERAGE DAILY SALES (Quarts)

Milk	304,078	300,104	317,358
Buttermilk	5,049	5,634	5,514
Chocolate	17,855	18,722	19,517
Skim	11,651	11,416	12,087
Cream	8,951	8,648	9,129

COMPARATIVE STATISTICS



COLUMBUS MARKETING AREA



Oct., 1951-60

Year	Receipts from Producers	Average Butter-fat Test	Percentage of Producer Milk in Each Class				Uniform Producer Price (3.5%)	Class prices at 3.5%				Number of Producers	Daily Average Production
			Class I	Class II	Class III	Class IV		Class I	Class II	Class III	Class IV		
1951.....	16,537,716	4.12	86.6	11.3	2.1	—	4.78	4.835	4.434	3.659	—	2,111	253
1952.....	17,480,900	4.14	84.6	13.4	1.8	—	5.22	5.292	4.892	3.843	—	2,200	256
1953.....	20,252,601	4.04	83.5	13.5	3.0	—	4.78	4.862	4.462	3.562	—	2,234	292
1954.....	21,943,122	3.96	81.8	8.1	6.1	4.0	4.42	4.558	4.158	4.158	3.222	2,186	324
1955.....	23,391,897	3.90	80.6	8.0	7.3	4.1	4.40	4.516	4.116	4.116	3.18	2,091	361
1956.....	23,321,443	3.81	82.7	8.6	4.7	4.0	4.47	4.607	4.207	4.207	3.271	2,020	388
1957.....	25,608,115	3.79	82.3	6.9	4.6	6.2	4.34	4.519	4.119	4.019	3.096	1,887	438
1958.....	24,738,205	3.77	85.7	8.3	1.7	4.3	4.30	4.420	4.020	3.920	2.894	1,746	457
1959.....	26,207,693	3.86	92.0	5.9	1.0	1.1	5.11	4.697	4.297	3.865	3.116	1,727	490
1960.....	27,938,777	3.80	86.1	7.9	1.6	4.4	4.84	4.502	4.102	3.913	3.100	1,588	568

CCC Sales of Feed Grains Down In 1959-60

Total sales of feed grains for domestic use and export were generally lower in 1959-60 than in 1958-59. Sales of corn by CCC totaled about 145 million bushels during the 1959-60 marketing year, much less than the 227 million bushels sold in 1958-59. Sales into the domestic market totaled about 111 million bushels, 52 million less than in 1958-59. Domestic sales of corn were substantially smaller than a year earlier in the first half of the 1959-60 marketing year, but increased during the spring of 1960 as substantial quantities of low quality corn were sold. Domestic sales of CCC oats and barley in 1959-60 were larger than in 1958-59, reflecting lower domestic sale prices. Sorghum grain

sales, however, were only about half those in 1958-58.

Export sales of each of the four feed grains were smaller than those in 1958-59. Deliveries to exporters under the payment-in-kind program were much smaller than in 1958-59. Lower domestic feed grain prices in 1959-60, in relation to world prices, resulted in smaller average payments per bushel to exporters under the payment-in-kind program. Because payments per bushel were lower more of the grain exported under this program came from the commercial market, and less from CCC stocks, than in 1958-59. Substantial quantities of oats and relatively smaller quantities of the other feed grains were exported from commercial market without Government assistance.

USDA Recommends Milk Order For Indianapolis Marketing Area

The U. S. Department of Agriculture has recommended establishment of a Federal marketing order to regulate milk handling in the Indianapolis, Ind., marketing area.

This recommendation is based on evidence presented at a public hearing held at Indianapolis last April at the request of organizations representing a majority of producers supplying milk to the area.

A tentative order has been submitted to producers and handlers in the area for comment. Interested persons will have until Dec. 9 to file comments or exceptions with the Hearing Clerk, Room 112-A, U. S. Department of Agriculture, Washington 25, D. C. Four copies should be submitted.

The marketing order, if issued, would establish minimum prices to be paid by handlers (bottlers) to producers who supply milk distributed in the marketing area. It would not, however, regulate retail prices.

The proposed marketing area comprises a population area of more than 1.6 million people, and includes the cities of Indianapolis, Muncie, Anderson, Richmond, Kokomo, Lafayette, and Marion. Altogether it includes these 21 Indiana counties: Boone, Clinton, Delaware, Fayette, Grant, Hamilton, Hancock, Hendricks, Henry, Howard, Johnson, Madison, Marion, Montgomery, Morgan, Putnam, Rush, Selby, Tippecanoe, Tipton, and Wayne.

Total Feed Concentrate Supply Up Slightly

Total supplies of feed grains and other concentrates for 1960-61 are estimated at 269 million tons, 2 percent above the record supply last year and 29 percent above the 1954-58 average. Allowing for the slight reduction in prospect for livestock on farms in 1960-61, the supply of 1.62 tons per animal unit also is a record, more than a fourth above the 1954-58 average.

The total tonnage of concentrates fed to livestock has increased rather sharply in recent years and in 1959-60 was about a fourth higher than 5 years ago. This increase has come largely through heavier feeding per animal with only a moderate increase in livestock numbers. The rate of

feeding per animal unit has gone up about 20 percent since 1954. During this period feed grain prices have gone down much more than livestock prices, thus favoring liberal feeding per animal. Big crops in the last 3 years and low quality corn in 1957-58 and 1959-60 also favored liberal feeding. Dairy and beef cattle have been getting an increasing proportion of their feed from grain and other concentrates. Feeding per animal is expected to continue high in 1960-61. If total domestic use and exports continue at about the 1959-60 rate, total disappearance in 1960-61 would again fall a little below production, resulting in some further increase in carryover.

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BE STRONGER
LIVE LONGER
DRINK MILK

FEDERAL ORDERS
(continued from page one)

The fact that producers find the Federal order program useful in meeting some of their marketing problems does not alone account for the success of the order program. One of the other essential elements in that success has been that the program has a firm legal foundation. We feel that its rather successful history in the courts is due first of all to the fact that the milk provisions of the Agricultural Marketing Agreement Act are highly specific and are well tailored to the realities of milk marketing. Also, of course, both the Dairy Division and the Office of the General Counsel of the Department of Agriculture take understandable pride in having developed order provisions, and evidence in support of them, which are in line with the Act and have withstood court tests. In the field of interstate commerce, which must be proved before Federal regulation is possible, two things have happened. One is that the statutes and courts have defined interstate commerce very broadly, and the second is that the increasing distances over which milk is procured and distributed have greatly increased the extent of interstate commerce. A second major field for potential litigation is concerned with the question of whether or not there is a need for Federal regulation in a particular market. The standards of need which the Dairy Division has applied before issuing an order have not been successfully challenged to date. The only major provision of Federal orders which has not been as fully endorsed by the courts as we might wish is the application of the compensa-

Market Quotations

October
1960

12 MIDWEST CONDENSERIES 3.5% per Cwt.	\$3.311
5 CONDENSERIES (Cincinnati) 3.5% per Cwt.	2.97
4 CONDENSERIES (Tri-State) 3.5% per Cwt.	3.000
Evaporated Milk Code Price, 3.5% per Cwt.	2.959
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Cincinnati)	3.1872
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Columbus)	3.15
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Dayton)	3.174
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Toledo)	3.049
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Tri-State, North Central O.)	3.049
Average Weekly Cheddars price per lb.3775
Average price per lb. non-fat dry milk solids, roller process delivered Chicago1410
Average price per lb. 92-score butter at Chicago60773
Average carlot prices non-fat dry milk solids, roller and spray process, f.o.b. manufacturing plant13085

tory payment provisions to milk from sources which are only partly regulated under an order.

In addition to fulfilling at least some of the needs of producers and the legal requirements, the Federal orders have gained a wide acceptance from the dealers who are the regulated parties and from the general public. The open procedures which are followed in the Federal order program are an important reason for the acceptance by the dealers and the public. The requirement that all new orders and amendments be considered at a public hearing is the focal point of our procedures.

We encourage the dealers to take as active a part as they can in our promulgation and amendment proceedings. It is our experience that dealers have direct knowledge of many competitive conditions in the market that individual producers or cooperative associations are not

in a position to know.

Several other factors come to mind as being important in the degree of acceptance which the program has achieved. One of these is the reasonableness of the Class I prices which have been established. A second is the fact that our regulation involves only the minimum prices paid to producers. We avoid direct involvement with the level of prices charged to consumers for milk delivered to homes or consumer groups. The fact that industry bears the costs of the local administration of the program and that Congress approves only the administrative expense of the Washington staff makes the program more easily acceptable. Finally the fact that administrative costs have been held to a very small percentage of the value of the milk and that financial statements are issued annually by each market administrator has resulted in a large measure of industry acceptance of the program.